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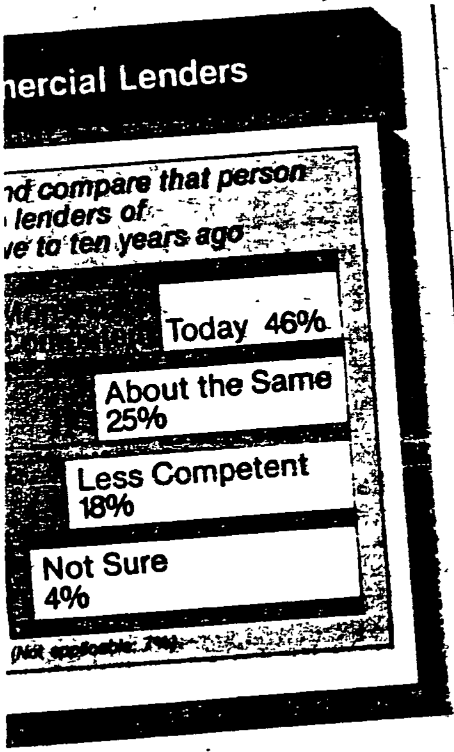

At Least 17 Failed Banks Held Deposits from Brokers

By RICHARD RINGER

At least 17 of the 48 commercial banks that failed during last year and the first five months of this year had brokered deposits, according to the Federal Deposit Insurance Corp.

And that number, said Jesse Snyder, assistant director of the division of bank supervision for the federal insurer, is actually a conservative figure. "It is a minimum estimate," said Mr. Snyder.

It's difficult to determine just how many of the failed banks had brokered deposits because of reporting and technical problems, said Mr. Snyder.

The brokered deposits did not cause the failures of these 17 banks. However, the presence of brokered deposits complicated the FDIC's ability to deal with the problems at those banks while they were still open, according to the FDIC.

William Isaac, FDIC chairman, has publicly questioned money broker activities and the impact they have on the federal insurer. His comments have found a receptive ear in Congress, which is considering ways to monitor or regulate money brokers.

Regulation, as might be expected, isn't keenly regarded by many of the money brokers.

The FDIC statistics, obtained by the American Banker, reveal that the brokered funds are not only coming from other banks, savings and loans, and credit unions, but in some instances from government agencies.

No matter what the source of the brokered funds, the FDIC believes investors are primarily motivated to use

➤ Brokers: Page 64

...ers Win Praise

... Them 'Very Competent'

level of service and quality," comments Edward E. Furash, a strategic planning consultant for financial institutions.

If most companies are pleased with their current bankers — and if loan

➤ Banks: Page 3

'Separate Fed' Idea Takes Hold

By ROBERT TRIGAUX

HONOLULU — Legislation in Congress that calls for the Federal Reserve System to capitalize and spin off its ... services as a separate

...tial Profile

James G. Cairns Jr is a hard-working, nonsense type who may become the next ABA

2

At Least 17 Failed Banks Held Deposits Obtained from Money Brokers

Continued from page 1

money brokers because of the high interest rates on the deposits they place. But many of the institutions seeking brokered funds pay higher rates because they are less creditworthy or in some cases are experiencing financial dfficulties

Deposits of the 48 banks that failed during the 16-month period ending last May totaled $2 3 billion. Of that amount, $306 6 million, or slightly more than 13%, was placed by money brokers, the FDIC figures show

Conservative Estimates

But, again, these are conservative estimates because more of the failed banks probably had brokered deposits unknown by the FDIC

Some of the failed banks known to have had brokered deposits at the time they were shut relied heavily on brokered funds, according to the FDIC statistics Between 25% and 75% or more of the deposits held by a few of the 17 banks at the time of their closing consisted of brokered funds, the figures show

For example, Aqua Bank & Trust of Stafford, Va, had total deposits of $12 3 million when it was closed on April 3, 1982 Of that total, $3 6 million were brokered deposits.

Of the $472 8 million on deposit at Penn Square Bank NA of Oklahoma City when it was closed July 5, 1982, $124 6 million were brokered funds

Newport Harbour National Bank of Newport Beach, Calif, had $33 9 million in brokered deposits out of a total deposit base of $45 1 million when it was shut March 11 of this year.

The Sparta Sanders Bank in Sparta Sandam K...

Indian Affairs, a government agency that operates under the Department of the Interior. In all, the bureau had $24 1 million in brokered funds in eight of the 17 on the FDIC's list of failed banks with brokered deposits

John Vale, chief of the investment branch of the bureau, said his department has "considerable dealings" with money brokers in making investments "They provide a service," Mr. Vale said "They're in touch with people who probably wouldn't know about us"

The money brokers also helped the bureau get a high rate of interest on its investment pool, which totals about $6.1 billion in trust funds of the various Indian tribes. In fiscal 1983, thanks considerably to the use of money brokers in placing deposits, the bureau earned an average 14.48% on its investments, said Mr Vale

Usually, he said, the bureau can get a higher rate by going through money brokers to purchase CDs of depository institutions rather than investing in Treasury bills or other government securities

Also, the bureau checks only to make sure the CDs it purchases are issued from depository institutions that have federal deposit insurance. Because of that, the bureau never lost any money in any of the banks that failed

That is exactly the kind of activity the FDIC adamantly opposes and hopes to curb through new laws

No Letter, No Response?

The bureau is one of several groups Mr Isaac wrote to earlier this year to express his concern about the use of brokered money. But, according to an FDIC ...

just how serious the problem is. For beginning with the September call reports, banks for the first time had to report their volume of brokered deposits.

"That will provide more accurate information by identifying the volume of brokered deposits," said Mr Snyder.

Not all banks having brokered deposits use the funds adversely. Some banks use brokered deposits wisely, said Mr Snyder "If used prudently, it's a good planning tool" for the bank, he said

To do so, the bank must match quality assets with these high-cost deposits However, that isn't what the FDIC is finding, Mr. Snyder said.

Many of the brokered deposits going into banks, said Mr. Snyder, are those with a rating of 4 or 5 on the FDIC's safety rating scale, which ranges from 1, the best, to 5, the weakest. About 575 banks as of Aug 31 had ratings of 4 or 5

For many of these "problem banks," it's just a matter of time before they fail, said Mr Snyder. Brokered funds in these institutions only prolong the time the bank stays open and impede the ability of the FDIC to deal with them, he said

The Decline of Core Deposits

What is happening at many of these banks, said Mr. Snyder, is that their core deposits are dwindling. Some of the loss no doubt is attributable to depositors seeking higher rates that are now available by investing in other bank and nonbank deposit instruments.

The deposit outflow at these banks is being replaced with high-cost brokered money. At the same time the

What may be needed, Mr Goldsmit said in a letter to editors of variou financial publications, "is not new re gulations, but new regulators with th will and backbone to enforce legislatio and regulations, some of which ar already on the books"

If deposit insurance is removed fro brokered funds, "banking activities wi further consolidate in a few of th largest money center banks to th detriment of thousands of smaller, re gional banks and savings and loans, Mr Goldsmith wrote.

'Gone Are the Days of Loyalty'

Karen Fawcett, vice president o Washington-based Harvey Baskin & Co., which offers banks an exchange fo their CDs, agreed.

Money brokers, she said, are a efficient way of getting funds fron geographic regions with excess mone to regions that need additional funds

More astute depositors also con tributed to the use of money brokers Ms Fawcett said "Long gone are th days of loyalty," she said of depositors "Depositors are much mor sophisticated. They are looking for a higher yield" on their investment

Andrew Carron, a senior fellow at th prestigious Brookings Institution in Washington, said the money broker are a "valuable industry. I would hate to see some crude type of regulation" before a careful examination of the issue could be conducted

"Money brokers," he said, "rank low on the list of problem causers." And any effort at regulating brokers, particularly in the current environment, "has the potential for more problems than good," he said brokered funds, according to the FDIC statistics Between 25% and 75% or more of the deposits held by a few of the 17 banks at the time of their closing consisted of brokered funds, the figures show

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Newport Harbour National Bank of Newport Beach, Calif, had $33.9 million in brokered deposits out of a total deposit base of $45 1 million when it was shut March 11 of this year.

The Sparta Sanders Bank in Sparta Sanders, Ky , closed April 15 this year, had an unusually high volume of brokered deposits Of the $16.4 million in total deposits, an eye-popping $12.4 million were brokered

Chunks of $100,000

Brokered deposits exacerbate problems for the FDIC since, in many cases, the deposits are divided in $100,000 allotments and thus fully insured So, in cases of deposit payouts, the FDIC is liable to pay all depositors, including those who had their deposits brokered

But even in "purchase and assumption" agreements whereby another institution takes over the deposit liabilities of the failed bank, the FDIC still often assumes a loss Mr. Snyder said that an institution that bids to take over the failed bank isn't willing to pay as high a purchase premium price as otherwise might be expected. That's particularly true when the deposits they would be assuming are paying high interest rates

And brokered deposits, generally in the form of jumbo CDs, typically pay investors a higher interest rate than can be earned in regular savings instruments

According to the FDIC, $160.9

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No Letter, No Response?

The bureau is one of several groups Mr Isaac wrote to earlier this year to express his concern about the use of brokered money. But, according to an FDIC spokesman, the bureau never responded to Mr. Isaac's letter.

Mr. Vale said he is unaware of such a letter. "It may be in the Washington office," he said The bureau's investment office is located in Albuquerque, N M

Next in line to the bureau in the dollar volume of brokered funds in the failed banks are what the FDIC calls "military funds."

About $8.8 million in these funds were placed through brokers in nine of the 17 failed banks, according to the FDIC. A spokesman for the Department of Defense said the deposits didn't come from funds appropriated to the military

Rather, he said, the money was from credit unions that operate for military personnel and aren't part of the government Some of the money may also be nonappropriated funds generated from such entities as officer clubs on military bases

Other government agencies that used money brokers to help place their funds, according to the FDIC information, include the Department of Energy, which had $200 million on deposit at the National Security Bank, Tyler, Tex , when it was shut April 16, 1982, and the Federal Milk Market Administration which had $100 ...

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The deposit outflow at these banks is being replaced with high-cost brokered money. At the same time, the banks are saddled with long-term, low-earning assets.

By going through a money broker, the banks with liquidity problems can avoid going to the Federal Reserve Bank for a liquidity loan, said Mr Snyder. Such Fed loans, he said, are more restrictive.

First of all, the Fed places limits on how much a bank can borrow by imposing collateral requirements on just how much is lent to the bank. Second, the Fed determines before granting such a loan if the bank is solvent and financially strong.

The FDIC has argued that many money brokers, who are paid on a commission basis by banks that receive the brokered money, aren't concerned at all about the financial stability of their client banks.

Isaac Recommends Dropping Insurance

As a way of controlling money broker activities, Mr Isaac last week suggested denying deposit insurance coverage to brokered deposits This might be "the most effective approach" to discipline money brokers, Mr Isaac said.

He and representatives of the Federal Reserve Board, the National Credit Union Administration, the Federal Home Loan Bank Board and the Com...

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"Money brokers," he said, "rank low on the list of problem causers." And any effort at regulating brokers, particularly in the current environment, "has the potential for more problems than good," he said.

At any rate, regulation of money [illegible] an act of Congress, isn't likely to come [illegible] anyway, predicted a staff aide to Rep. St Germain Other issues needing attention by Congress must be settled before that, the aide said

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EuroPartners Elects Misrahi as President

NEW YORK — Pierre Misrahi has been elected president and chief executive officer of EuroPartners Securities Corporation, the investment banking firm whose shareholders are European financial institutions He was also named a director.

Mr. Misrahi succeeds Bernard Hautefort, who assumes a senior position in the international division of Credit Lyonnais, Paris. Prior to his new appointment, Mr. Misrahi served as general manager of Credit Lyonnais in Panama.

Wolfgang Perlwitz, formerly with Commerzbank, has been appointed senior executive vice president of had an unusually high volume of brokered deposits Of the $16.4 million in total deposits, an eye-popping $12.4 million were brokered

Chunks of $100,000

Brokered deposits exacerbate problems for the FDIC since, in many cases, the deposits are divided in $100,000 allotments and thus fully insured So, in cases of deposit payouts, the FDIC is liable to pay all depositors, including those who had their deposits brokered

But even in "purchase and assumption" agreements whereby another institution takes over the deposit liabilities of the failed bank, the FDIC still often assumes a loss Mr. Snyder said that an institution that bids to take over the failed bank isn't willing to pay as high a purchase premium price as otherwise might be expected. That's particularly true when the deposits they would be assuming are paying high interest rates

And brokered deposits, generally in the form of jumbo CDs, typically pay investors a higher interest rate than can be earned in regular savings instruments

According to the FDIC, $160.9 million, or nearly half of all the known brokered deposits at the 17 failed banks during the 16-month period ending last May, were placed by credit unions through brokers

The next highest amount, $46 2 million, came from deposits classified by the FDIC only as "other"

Deposits from other banks accounted for the next highest amount, or $29 9 million Deposits generated from savings and loans ranked fourth with $29 2 million

Indian Bureau Is Fifth

Ranking a close fifth were deposits placed by brokers for the Bureau of Indian Affairs. responded to Mr. Isaac's letter.

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Other government agencies that used money brokers to help place their funds, according to the FDIC information, include the Department of Energy, which had $200 million on deposit at the National Security Bank, Tyler, Tex., when it was shut April 16, 1982, and the Federal Milk Market Administration, which had $100 million on deposit at the Tri-State Bank, Markum, Ill., when it was closed Sept 8, 1982.

Because brokered money has been found at banks that were on the FDIC's "problem" list before the banks failed, Mr Snyder said there is no reason to doubt that troubled banks today, and others with a strong financial base, have brokered deposits.

But just how many banks that might include isn't known For one thing, the FDIC typically doesn't learn about brokered deposits at a bank until it fails or is placed on the problem list

However, the FDIC soon will have a better assessment of their number and [illegible] are saddled with long-term, low-earning assets. [illegible]

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He and representatives of the Federal Reserve Board, the National Credit Union Administration, the Federal Home Loan Bank Board, and the Comptroller of the Currency are scheduled to testify Oct. 25 about ways to monitor money broker activities during hearings held by Rep. Fernand St Germain, D-R.I., chairman of the House Banking Committee

But regulation on money brokers isn't too popular Bankers are not the only ones who oppose such an approach.

William A. Goldsmith, executive vice pesident of Professional Asset Management Inc, a Del Mar, Calif, money brokerage firm, thinks money brokers have become "scapegoats I think it would be safe to state that current thinking indicates that it's high time to find a scapegoat, and the money broker is it."

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EuroPartners also revealed that its directors had approved the addition of Caisse des Depots at Consignations, the largest financial institution in France, to its shareholders group. Jean-Claude Villanneau, deputy managing director of the international and banking department of Caisse des Depots, was elected a director of EuroPartners